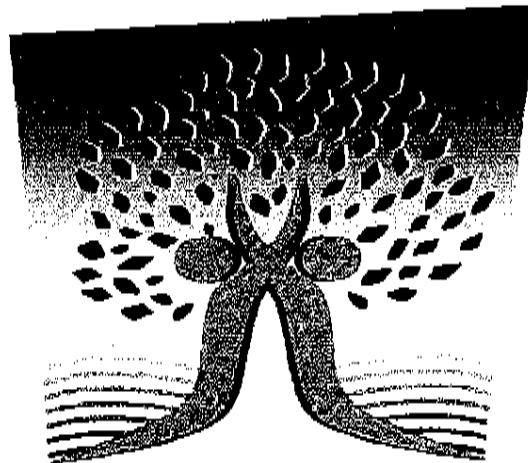


!KHEIS MUNICIPALITY

Annual Report 2009/2010



! Kheis
Munisipaliteit
Municipality

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1. Introduction and Overview

The annual report is an account of the Municipality's achievements in the year under review, and as with any rigorous reporting instrument it does not hesitate in pointing out where the Municipality has fallen short.

The purpose of an annual report is given as follows:

- Provide a record of the activities of the municipality during the financial year.
- Report on performance against the budget for the financial year.
- Promote accountability to the local community for the decisions made throughout the year.

The annual report must include the following:

- Annual financial statements of the municipality;
- Auditor-General's audit report in terms of section 126(3) of the MFMA;
- Auditor-General's audit report in terms of section 45 (b) of the Municipal Systems Act no 32 of 2000;
- Annual performance report of the municipality prepared in terms of Section 46 of the the Municipal Systems Act no 32 of 2000;
- Assessment of any arrears;
- Assessment of municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) of the MFMA for revenue collection;
- Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports;
- Explanations in connection to financial statements;
- Any information as determined by the municipality;
- Recommendations of the audit committee;
- Any other information as may be prescribed.

1.1 Foreword of the Mayor



Mayor of !Kheis Municipality: Councillor. S.M Jansen

!Kheis Municipality within the financial year 2009/2010 had been facing many challenges. We had been struggling to make sure our responsibilities towards all our communities are being addressed through great financial difficulties.

Against all odds it still had been our main role as local government to make sure that we provide basic services, create jobs, promoting democracy and accountability and to eradicate poverty.

Our key strategy is to tackle service delivery in the provision of water, sanitation and refuse removal. In this regard we managed to upgrade the bulk water plants in Topline and Brandboom during the 2009/2010 financial year. We know- to deliver sustainable services we must have a sound financial system in place, which had been our focus throughout the year. In February 2010 we have adopted a turn-around strategy to enhance the operations of the municipality.

Thanks to the acting Municipal Manager and her team for their dedication and hard work. I know that the year under review had not been easy, but your commitment and hard work is bearing fruit. Therefore, the council wants to express their sincere appreciation.

To my colleagues and fellow leaders in this institution: Your support and positive contributions in making Local Government work are of the essence. Without you supporting me we could have never come this far.

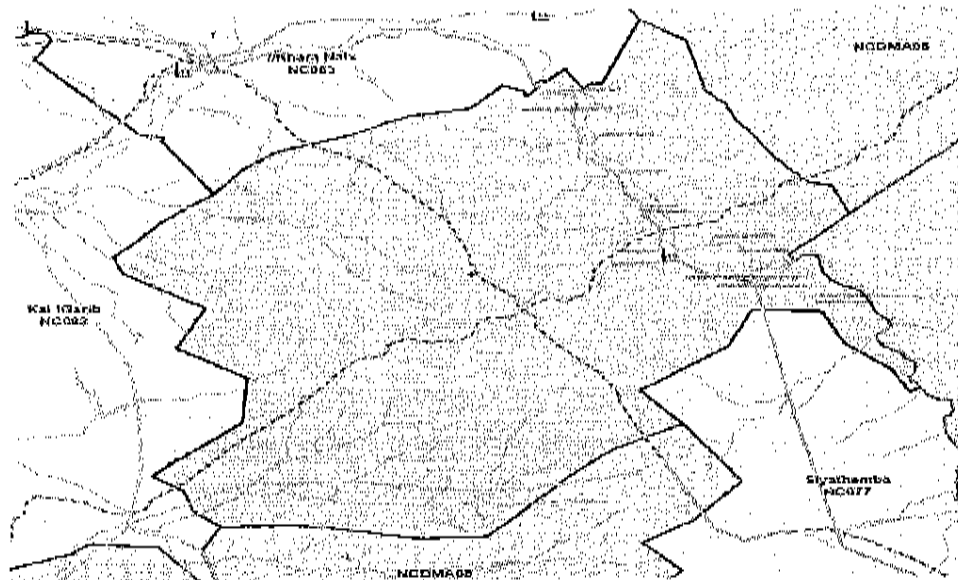
Working together we can and will make Local Government work better for all its stakeholders.

A handwritten signature in cursive script, appearing to read 'S. Jansen'.

Mrs. S. Jansen
Mayor !Kheis Municipality

1.2 Overview of the Municipality

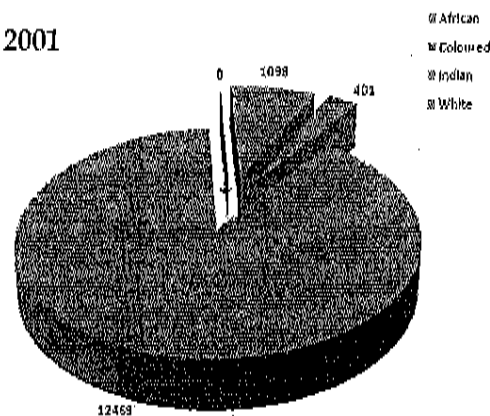
Geography



!Kheis covers an area of approximately 7 225 squares kilometers. All the towns in the !Kheis Municipality area are situated next to the N12.

Demography

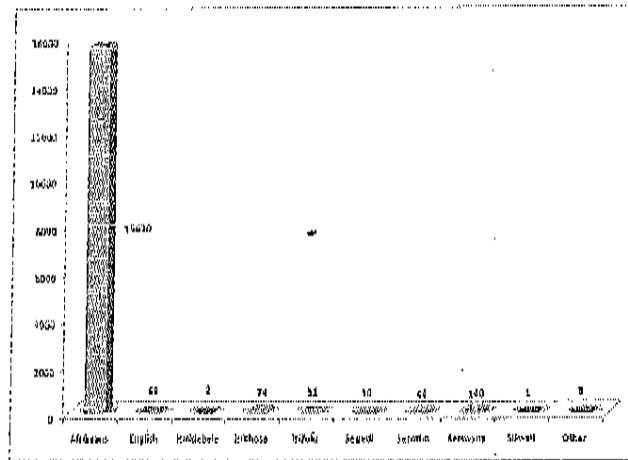
2001



Total Population: 16027

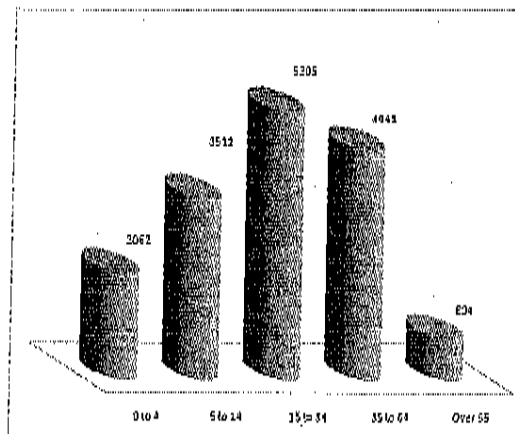
!Kheis Municipality had a total population of approximately 16 027 according to the community survey by census of 2001. !Kheis local Municipality is divided into 4 wards, and surrounding farms. According to the 2007 community survey censuses, the population in the !Kheis area was 673 Black African, 13 784 Coloured, 1 494 White and 6 Indian.

Females generally represent just over 51% of the population in most of the indicated areas. The figure illustrates those 49% household in !Kheis area are female headed.



Different Languages: !Kheis Municipality

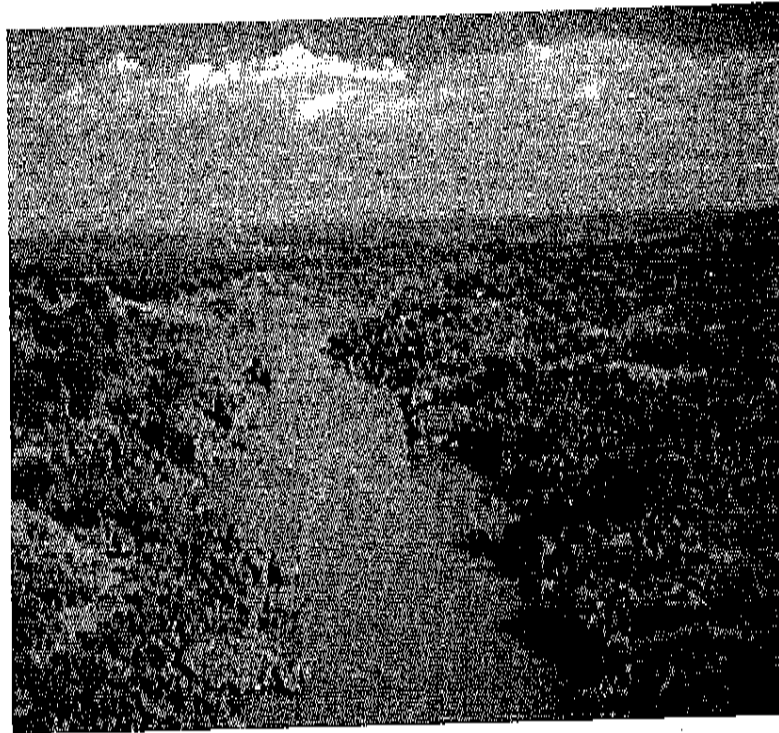
The graphic above illustrate the different languages spoken in the !Kheis area. A Total number of 15 630 of the inhabitants of the !Kheis area are predominantly Afrikaans speaking.



Age Groups

The age groups are especially important, since it could be determining for the planning of services which needs to receive priority attention at each town. For instance, the need for medical and social services would be higher in a town where the percentage of senior citizens is higher than the rest of the population.

Historical Background



The historical background focuses mainly on the first residents of the Municipal Area, and where the name of the Municipality originated.

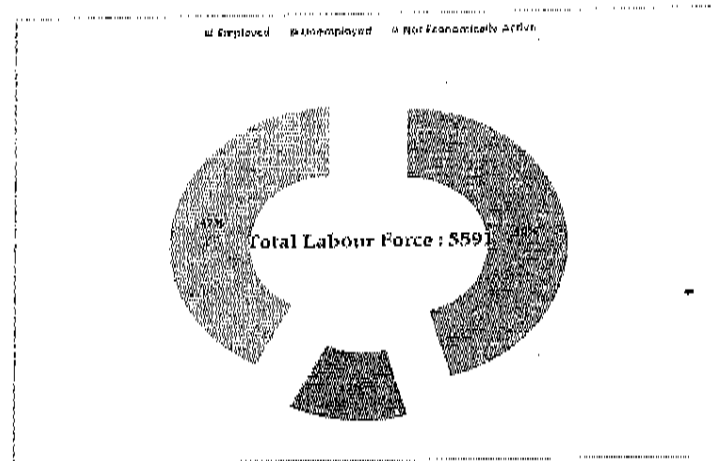
The !Kheis Municipal Area was initially inhabited by the **Khoi-San** people, who've also been the first permanent inhabitants of South Africa. The San, who lived a nomadic life, migrated through the area. The **Korannas** (Khoi group) arrived in the area during the 18th century. They were widely spread over the "Benede Oranje" area and consisted of various tribes, each with its own captain (leader). The groups who lived in the !Kheis area, was under leadership of Captain Willem Bostander and Klaas Springbok. Many of their descendants still live in the area today. Other Khoi-groups, such as the Griekwas, also migrated through the area and intermarried with the Korannas. Later Coloured stock farmers, as well as white hunters and farmers arrived.

The Korannas tenaciously protected their territory against English invaders, when the English wanted to shift the Colonial Northern Border up to the Orange River. After several Northern Border wars, the Korannas power was broken and several Koranna leaders i.e. **Dawid Diederiks**, **Jan Kivedo** (Cupido), **Karel Ruyter** (Ruiters), **Piet Rooi**, **Klaas Lukas**, **Jan Malgas**, **Thomas Pofadder**, were caught between 1870 and 1879 by the English and held captive as political prisoners on **Robben Island**. (The very first people send to **Robben Island** as political prisoners, were Khoi people). In 1883 Piet Rooi died as a prisoner on **Robben Island**.

The actions of the English against the Korannas left them without leaders, which largely led to the fall of the Koranna people. The fact that the Municipality was given the name **!Kheis** is indeed an acknowledgment to the native people who first migrated to this area.

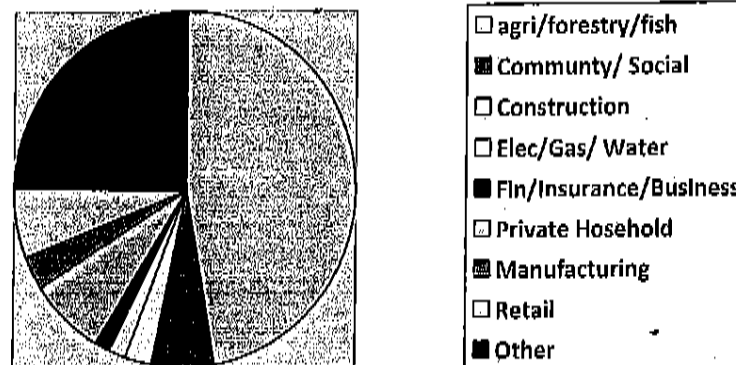
Employment

The economically active population (people aged 18 and above that are able and willing to work) of the !Kheis area is estimated at 46%, which resulting in an official unemployment rate of 54% which is of great concern.



Labour Force

A total of 5 591 people are estimated to be engage in formal sector. According to the above table, 54% of the total labour force is unemployed. This directly impacts payments of Municipal services.



Work force sectors

Agricultural is still the main economic sector. Commercially farmers specialise with sheep for meat production, while the emerging farmers concentrates on sheep and goats. The irrigation sector which mainly focuses on the cultivation of table grapes is one of the main areas within the economy. There are two wine cellars in the area in Grootdrink and Groblershoop. High quality table wine and grape juice is produced at these wine cellars. Products of these wine cellars have received several national and international awards. A lot of permanent jobs are created through these wine cellars.

1.3 Executive Summary by Municipal Manager



Municipal Manager of Kheis: Teresa Scheepers

1.3.1. Vision and Mission Statement of the Municipality

Vision

“The development of an institution, focussing on transparent, loyal and effective service delivery to the residence of the !Kheis Municipal Area.”

Mission

‘To promote economic development to the advantage of the communities within the boundaries of the !Kheis Municipality this will be done by the establishment and maintenance of an effective administration and a safe environment in order to attract tourists and investors to the area’.

1.3.2. Key Performance Areas of the Municipality

- KPA 1: Municipal Institutional Development & Transformation
- KPA 2: Basic and Sustainable Service Delivery
- KPA 3: Local Economic Development
- KPA 4: Municipal Financial Viability and Management
- KPA 5: Good Governance & Public Participation

1.3.3. Governance

Political continuity and stability has been achieved since 2000 and this is clearly reflected in the number of Council seats held by the various political parties. The various political parties and number of seats are as follow:

- | | |
|-----------------------------|-----------------|
| ➤ African National Congress | : 4 Councillors |
| ➤ Democratic Party | : 1 Councillor |
| ➤ Congress of the People | : 1 Councillor |
| ➤ Independent Democrats | : 1 Councillor |

2. Human Resource and other Organizational Management

The organizational structure of the municipality consists of a workers corps of 64. The number of permanent employees is 64 and 13 vacancies. See attached the organogram of !Kheis Municipality.

Management

!Kheis Municipality is a small municipality which are manage by the Acting Municipal Manager, Chief Financial Officer and the Head Technical Services. Due to the number of limited municipal staff, the municipality only operates with four departments namely: Finance and Administration, Water, Public Works and Council.

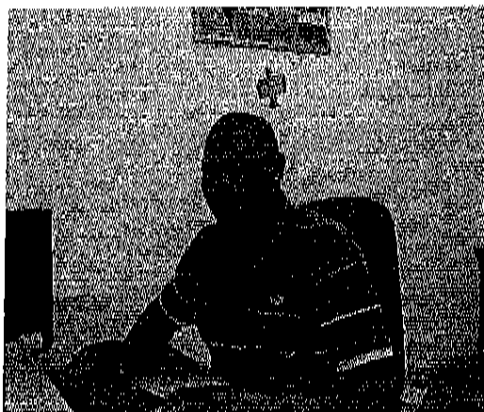
Chief Financial Officer

Mr. Jakobus Blom, the CFO, is responsible for the functions of this department. Service offerings per this department consists of but are not limited to the following:

- Annual budgets and financial statements
- Investments and cashflow management
- Administration of general ledgers and funds
- Asset Management, including insurance of assets
- Administration of income and expenditure
- Administration of all finance related policies
- Payroll administration



Head Technical Services



Mr. Davey Jacobs is heading this department. This section provides the following services: but are not limited to the following

- Comprehensive Management services
- Employment Equity administration
- Performance Management
- Labor Relations and benefit administration
- Maintenance of water networks
- Maintenance and cleaning of roads
- Upgrading of pavements
- Maintenance of sewerage pump stations
- Monitoring the quality of results

2.1 Number of staff per function

Kheis municipality has 7 councilors which consist of 4 ward councilors and 3 PR councilors.

Kheis Municipality Summary of personal number per function	Audited Actual
Municipality	
Administration	35
Water	12
Public Works	10
Sanitation	7
Total Personal Numbers	64

2.2 Skills and level of education attained by staff

Kheis Municipality Summary of personal numbers – Skills Level	Audited Actual
Senior Managers including Municipal Manager	4
Middle management	1
Technical/ Professional staff	
Other staff (Clerical, labourers, etc.)	59
Total Personal Number	64

2.3 Trends on staff expenditure

➤ Total Staff Expenditure

Ratio Salaries Personnel and Council : Total Expenditure

R7 097 761 : R16 817 264

42.2%

Comment

Though the ratio of 42.2% is not in line with the national norm of 35% it must be remembered that legislative requirements and community expectations in this small capacity municipality is the same as for bigger municipalities.

2.4 Disclosure on Employee's, Councillor's and Senior Management Benefits

Employees

Description	Amount
Salaries & Wages	4 054 811
Contributions for UIF, pensions and medical aids	664 951
Travel, motor car, acc, subsistence and other allowances	327 635
Housing benefits and allowances	7 842
Overtime payments	18 685
Performance and other bonuses	425 840
Other employee related costs	330 815
Total Employee Related Costs	5 830 579

Councillors

Description	Amount
Mayor	
Councillors	
Councillors pension and medical aid contributions	1 267 182
Councillors Allowance	1 267 182
Total Councillor's remuneration	

Senior Management

Description	Municipal Manager	Chief Financial Officer
Annual Remuneration	278 803	250 874
Travel, motor car, accommodation, subsistence	103 581	102 300
Contributions for UIF, pensions and medical aids	76 292	0
Total	458 675	353 174

The disclosure on Employees, Councillor's and Senior Management benefits for 2009/10 as disclosed in note 33 and 34 in the financial statements (page 25) are in accordance with the remuneration of Office Bearer act.

3. Annual Financial Statements and related financial information

The annual financial statement have not been compiled within the prescribed period and is attached hereto as Appendix (A) The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognized Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003)

With the exceptions allowed in terms of directive 4 these Transitional Provisions allows for extension period of 3 years from converting to GRAP Standards. Kheis Municipality will face these provisions and will fully comply with the standards of GRAP during the 2012 financial year.

3.1 Analyses of financial data on Financial Statements 2009/2010.

The following key financial indicators have been analyzed:

3.1.1 Analyses of operating income

➤ Total Income

Ratio of Internal Income: External Income

R8 014 719*: R16 884 253

1 : 2.10

Comment

For each Rand the Municipality generates it receives grants of R2.10 therefore for more than 66% of the income the municipality depend on grants.

➤ Difference between budgeted and actual Income on accrual base

Budgeted	Actual	% Difference
R21 269 274	R24 898 972	17%

Comment

Although the increase on actual income on accrual base of R3 629 698 (17%) are more than the amount budgeted for this is not the true reflection. The increase in debtors of R3 311 008 resulted in a very small increase in cash flow.

3.1.2 Analyses of operating expenditure.

➤ **Total Maintenance**
Ratio Maintenance : Total Expenditure
R551 957 : R16 817 264
0.03%

Comment

The low maintenance expenditure of 0.03% is of great concern when the increase of capital expenditure are considerate. Maintenance plans for infrastructural projects funded by national grants needs to be compiled and budgeted for.

➤ **Difference between budgeted and actual expenditure.**

Budgeted	Actual	% Difference
R21 269 274	R 16 817 264	26% Under Spending

Comment

The decrease in expenditure is due to cash flow contrains and the municipalities attempt to consolidate their liquidity by increase their cash and cash equivalents and redeaming long outstanding creditors. This is better illustrated in paragraph 3.1.3 and 3.1.4

3.1.3 Creditors age analyses and payment days

	2008/9	2009/10	In / (Decrease)
Creditors	R4 766 950	R4 087 075	R (679 875)

Comment

The creditors decrease with R 679 875 from the previous financial year.

3.1.4 Operating Capital Ratio

➤ **Total Equity**

Current Assets : Current Liabilities

R18 292 255 : R10 086 119

1.81 : 1

Comment

The operation capital ratio are improving and are in reach within the National Standard of 2 : 1

3.1.5 Assessment of arrears on municipal taxes and services charges

Debtors recovering days are 828 days. This means a consumer takes on average 24 months to settle their municipal accounts. The norm for municipalities is 100 days

3.1.5.1 Debtors age analyses and payment percentages.

➤ **Nett Debtors (included doubtful debt) comparison with previous year**

Debtors	
<u>2008/2009</u>	R10 717 115
<u>2009/2010</u>	R15 622 636
<u>% Difference</u>	45.77% increase

Comment

The total debtors increased with 45.77% (R4 905 521) notwithstanding the fact that the provision for doubtful debt have increased with R990 000 to R4 393 333.

➤ Levied Income Materialized

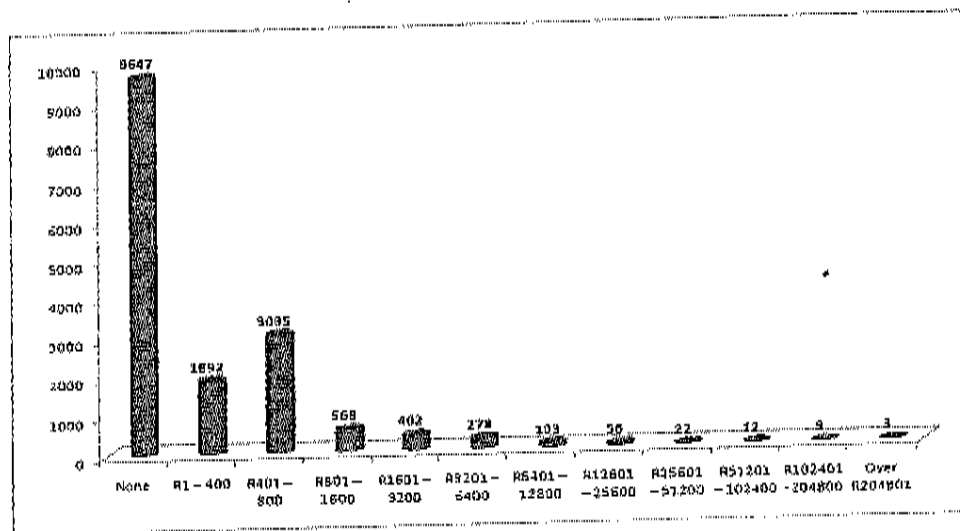
Actual levied Income	Budget levied Income	% Debtors
R7 210 716	R6 738 031	0.92% (R 458 020)

Comment

The levied income on accrual base increase of 0.92% (R 458 020), however consumer debtors increased with R3 311 008 resulted in a non payment percentage of 46%. Payment percentage of 54% therefore needs to be increased.

➤ Debtor age analyses

$$\frac{\text{Debtors / R16 377 060}}{\text{Levies / R7 210 716}} \times \frac{365 \text{ days}}{1} = 828 \text{ days}$$



Income per households

Comment

With the above calculation we discover that the municipality takes average 828 days to recover its debt and the municipality must pay its creditors within 30 or 60 days. This result in a serious cash flow problem for the municipality.

Serious consideration must be given to the implementation of the Debt Collection Policy.

3.2 Basic Service Delivery Component

The municipality is expected to provide water, sanitation, electricity, refuse removal and other basic services to indigent households.

The characteristics of the basic services component are:

- Supporting only poor households earning less than R2 160.00 p/month
- Distinguishing between poor households provided with services and those provided with lesser or no services
- Recognising water reticulation, sanitation, refuse removal and electricity reticulation as the core services.
- Providing for environmental health care service to all households, not only poor ones.

On 30 June 2010, !Kheis had 815 registered indigent households. The municipality provides the following free basic services to these indigents:

Water	: The first 6kl (R3.03) of water is free : Basic Levy R38.06
Sewerage	: R56.34 rebate per month on sewerage fees
Refuse Removal	: R77.45 rebate per month on refuse removal
Electricity	: 50 kwh (R50.00) of electricity is free

The total subsidy provided for the 2009/10 financial year amounted to R1 760 129

4. Audit Report on Financial Statements.

Audit activities by the Auditor-General commenced on 9 September 2010. The Audit Report from the Auditor-General was not received by the time of the compilation of this report.

5. Audit Recovery Plan.

The Audit Recovery Plan addresses all the audit queries and put forward a plan to work towards a clean Audit Report by the year 2011.

The detail on the Recovery Plan will be compiled when the final audit report is received.

6. Performance Management Report.

Introduction

Section 46 of the Local Government: Municipal System Act No 32 of 2000, as amended by section 6 of the Local Government: Municipal Systems Amendment Act No 44 of 2003 states as follow:

“Annual Performance Reports

46 (1) A municipality must prepare for each financial year a performance report reflecting:

- a) the performance of the municipality and of each external service provider during that financial year;
- b) a comparison of the performance referred to in paragraph (a) with targets set for and performance in the previous financial year; and
- c) measures taken to improve performance

46 (2) An annual performance must form part of the municipality's annual report in terms of Chapter 12 of the Municipal Finance Management Act”

6.1 Targets and Performance

One of the biggest shortcomings in !Kheis Municipality is the absence of a Performance Management System. Financial Performance is best illustrated in the Annual Financial Statements and the interpretation thereof. (See annexure A, and paragraph 3.1 of this report) Performance regarding service delivery had been addressed in the discussion of the IDP.

The development of a Performance Management System with assistance of the District municipality will receive high priority in the year 2010/2011.

7. Service Delivery.

7.1 Analyzing Service Delivery Targets

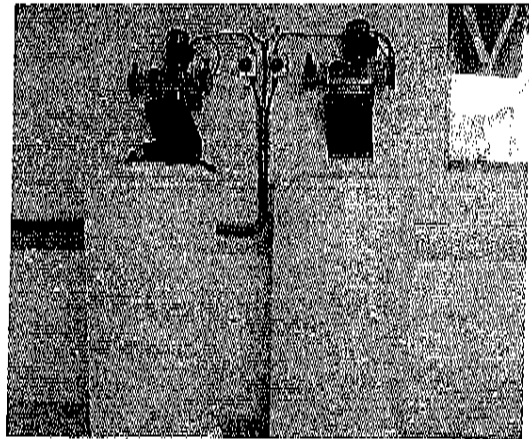
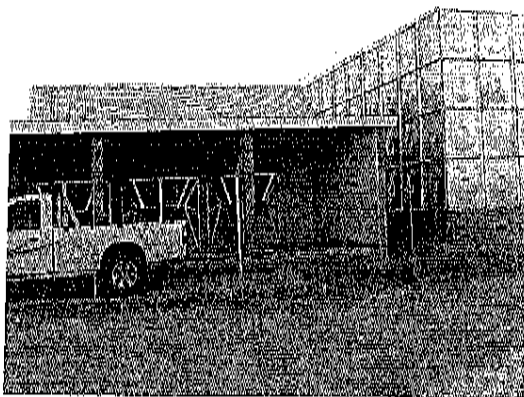
The following Capital project was planned for 2009/10 financial year:

- Bulk Water Supply at Topline.
- Bulk Water Supply at Boegoeberg.

7.2 Completed Projects

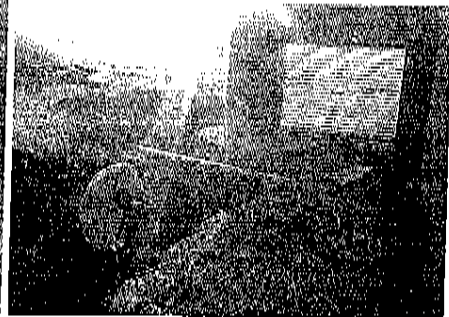
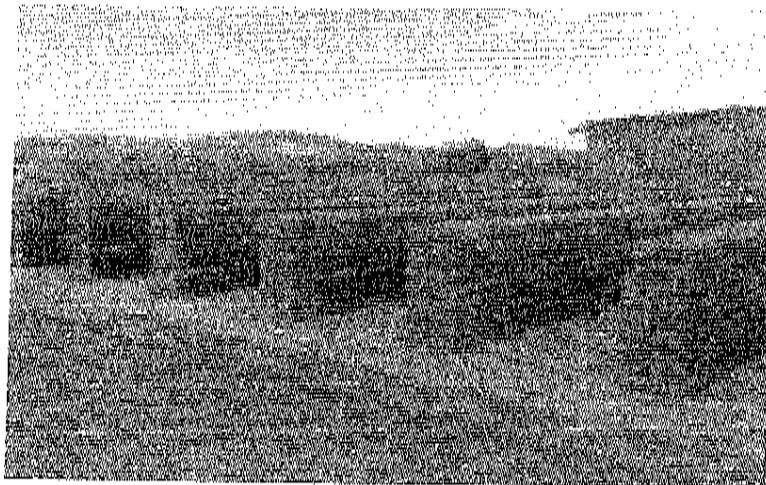
Water Services.

!Kheis Municipality is situated in the Siyanda region where the supply of clean water to the households are a difficult process. Water is a very precious resource. The efficient and sustainable use of water is therefore important for the municipality to reach its social, economic and environmental objectives. Water is supplied to Toplevel and Brandboom which is respectively approximately 25 km and 15 km from Groblershoop. These are economical disadvantaged areas with high rates of unemployment. The objective of this project is to supply clean consumable water to the communities and it did create a number of temporary employments.



Toplevel bulk water project

The Toplevel bulk water project is completed. Through this project 20 temporary workers were employed from which six (6) were woman and seven (7) were youth. Service delivery in respect of water can now be successfully delivered.



Upgrading of bulk water supply Boegoeberg

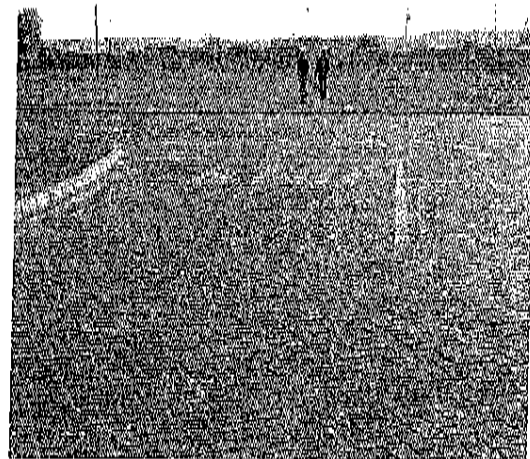
The bulk water project in Boegoeberg is still under construction. 34 temporarily job opportunities were created. It is the vision of !Kheis Municipality to supply clean water to all its communities in the designated areas. This project is planned to be completed by end of December 2010.

8. Local Economic Development

!Kheis Municipality have very low economic development potential. Notwithstanding this, the municipality attempts with its limited capacity to provide local economic development opportunities.

A local economic development strategy was developed that identified agriculture and tourism as the growth opportunities for LED. One of the most important realizations that have been activated in the municipality is creating an enabling environment for business to operate. Efforts undertaken by the municipality was to ensure reliable access to basic services. For the sustainability of the municipality and in terms of creating its own revenue the awareness exist in the municipality to be a facilitator, coordinator and catalyst for creating this enabling environment, as mentioned above.

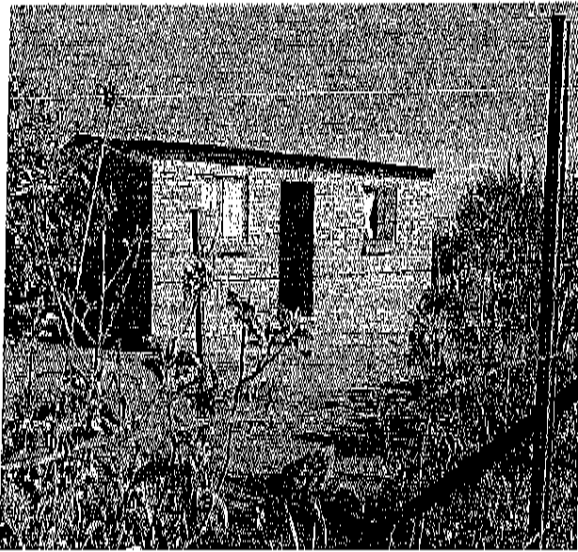
An important aspect to note is that the local procurement process is benefitting the local small businesses within the !Kheis municipal area and the whole Siyanda Region. This in itself by buying local enhances opportunities for SMME and BBBEEE. What is very important is that all our interventions are planned with our communities with the aim of promoting community ownership and management.



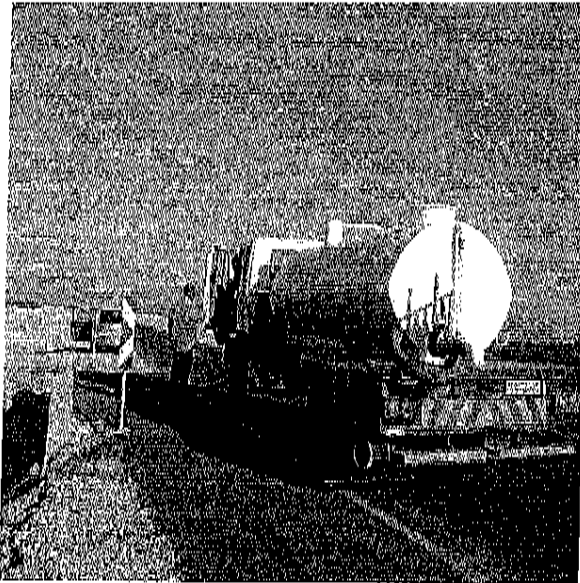
Paving and tar of streets/ access roads of Topline, Wegdraai and Grootdrink.

The project was funded by SANRAL. Through this project we intend to promote road safety and create better road conditions to the people of !Kheis Municipality. A total number of 204 people were temporary employed of which 100 of them were youth.

This programme involved the upgrading of existing gravel roads to provide all-weather access roads in order to link the communities with the formal road network.



The Mayor of !Kheis hands over the first completed house



!Kheis Sanitation Truck

The Department of Water Affairs donate a R150 000 to renovated the 22 year old sanitation truck of !Kheis Municipality. !Kheis Municipality had only this sanitation truck which has to serve the whole area of the !Kheis Municipal area. Through this donation service delivery can now been executed.



New plots are being signed off in Wegdraai - People in Topline already started to build houses

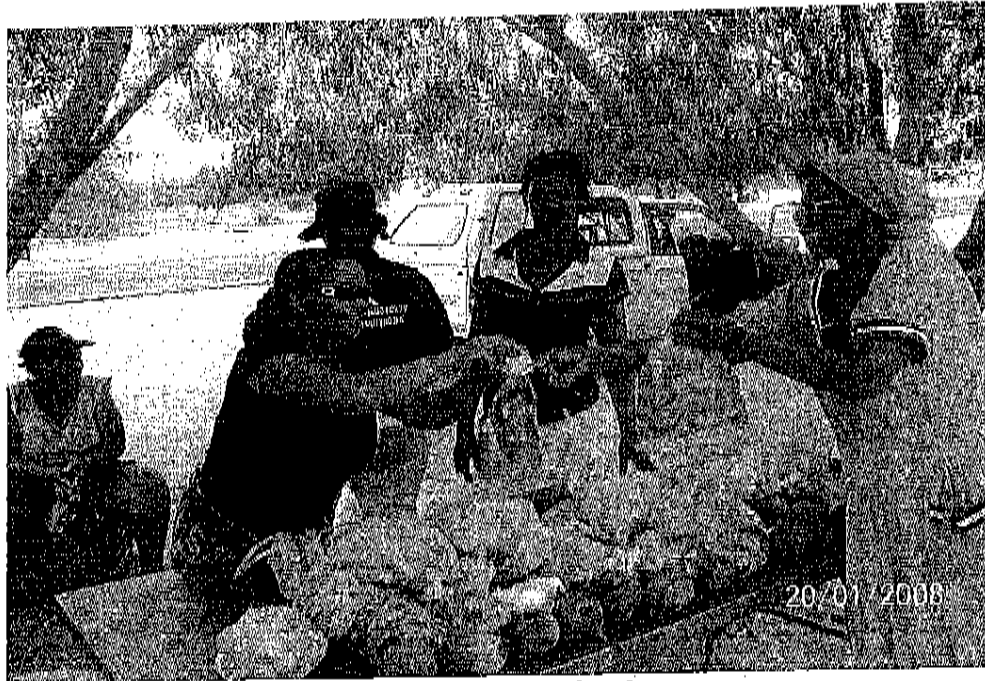
800 plots were demarcated for informal settlements in the !Kheis Municipal area. The plots per area was divided as follows: Boegoeberg – 81, Sternham – 299, Wegdraai – 116, Topline – 135, Grootdrink – 131 and Groblershoop – 38. Construction already started in Topline for the building of the RDP houses.

9. Poverty Alleviation

!Kheis Municipality is characterized by low levels of household income. Numerous households in the municipality earn below the minimum income level of R 2 400 per month. Poverty alleviation is therefore an important part of the activities of the municipality. The following projects have poverty alleviation as its aim:

- Opwag Vegetable Garden
- Disaster Relief Programme
- Violence against woman and children
- Construction of Topline Sport stadium





Opwag Vegetable Garden

The project was funded by Social Welfare in 2007 and consists of woman. The beneficiaries of the Opwag Vegetable Garden are 47 HIV/AIDS and TB patients, Nuwe Hoop Bejaarde Sentrum, Wegdraai Old Age and Sopkombuis Opwag. They donating vegetables to the Age in Action group of Groblershoop. The members of the Opwag vegetable garden making some income by selling vegetables at the market in town (Groblershoop).



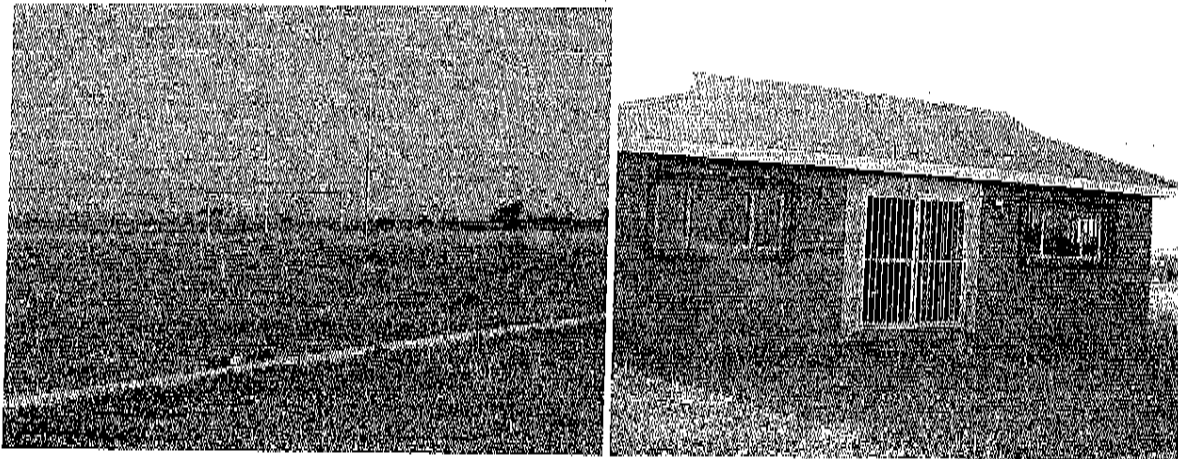
Disaster Relief Programme

Disaster Relief Programme – The Executive Mayor (Siyanda DM) and Mayor of !Kheis are handing over blankets and clothes. Several people were helped and uplifted through this project. Food parcels were also distributed amongst the people in partnership with Department of Social Service. It is part of the social responsibility of the municipality due to the fact that most of the people are seasonal workers which result in no income for a certain period during the year.



Violence against woman and children

The ward councilors identified two (2) senior citizens and approached the MEC of Environmental Affairs to fund the initiative. The houses was build and hand over for the identified persons

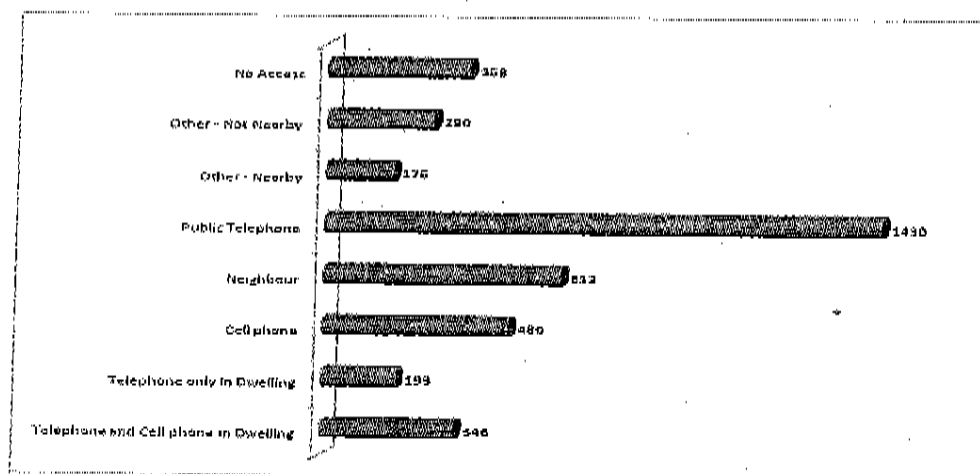
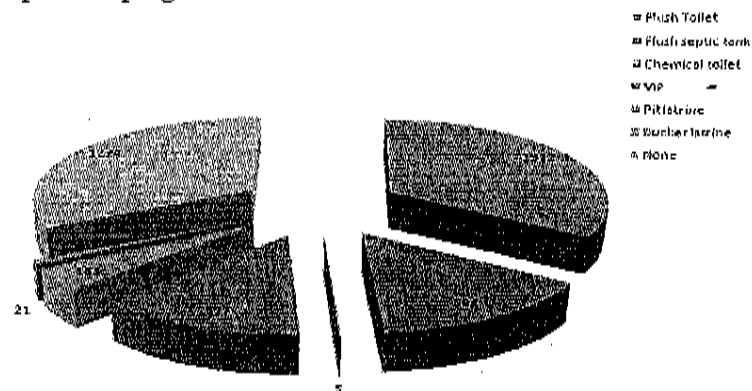


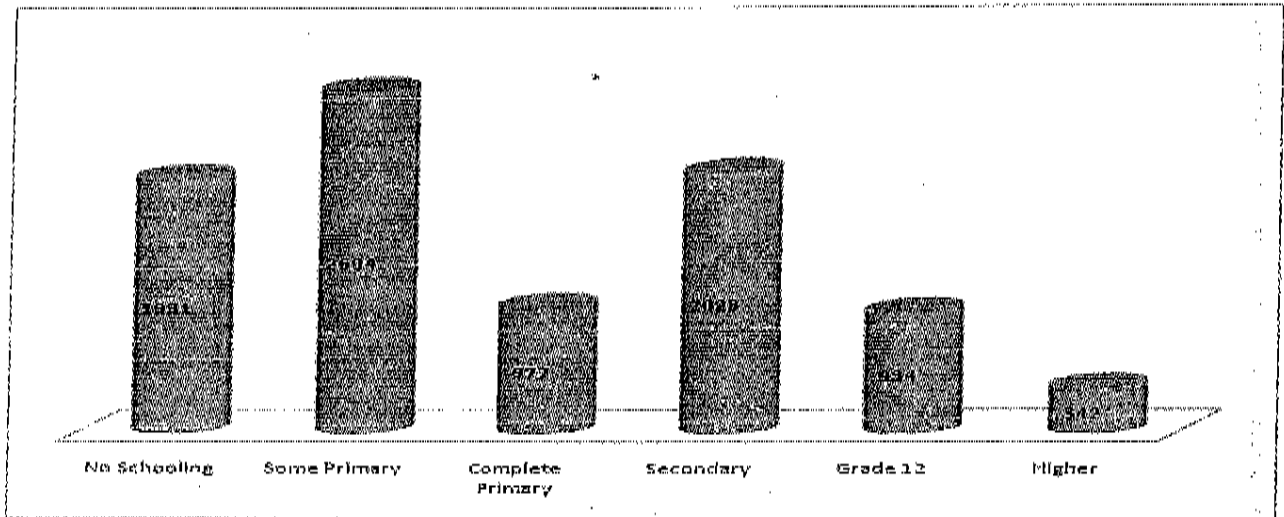
Construction of Samuel Gouws Sports Stadion

The construction of sport facilities in all our communities are one of our objectives of social upliftment of the youth. In doing this we will help to mainstream organized sport within the !Kheis Municipality.

10. Backlogs

- Lack of a well organized and effective systems and implemented policies and plans to manage and serve the whole municipal Area.
- Lack of proper and sufficient water provision in some of the areas
- Lack of proper and sufficient accommodation / housing
- Lack of good quality roads infrastructure, including storm water systems as well as efficient transport system
- Lack of proper and sufficient sanitation and sewerage systems to all residents
- Low levels of skilled people as well as high levels of poverty and unemployment
- Lack of quality health and emergency services and facilities
- Lack of sufficient cemeteries to cater for the increasing mortality rate
- Proper planning and development of Opwag
- Lack of sport and recreation facilities in some of the areas
- Lack of sufficient and effective telecommunication systems
- Lack of electricity provision to some residential areas
- Lack of proper dumping sites





11. Analyses compliance with legal requirements

- Water services development plan. YES
- Financial plan.
- Capital investment plan.
- Municipal action plan.
- Integrated institutional plan. NO
- Performance management system. NO
- Spatial development framework. NO
- Local economic development plan / strategy. YES
- Integrated tourism plan. YES
- Disaster management plan. NO
- HIV/AIDS strategy. NO
- Integrated environmental management plan. NO
- Integrated waste management plan. NO
- Poverty reduction and gender equity plan. NO

Where the Municipality complies, plans are available on request. The areas where the Municipality do not complies will receive urgent attention in the coming financial years also depending on available finances.

12. Conclusion

We can see that the municipality are facing financial challenges, which can be address if properly managed.

- The Municipality is highly dependent on its equitable share as a source of income, as a very little income of its own is generated. For 2009/10 the equitable share present 38% or R9 483m of the municipality's income.
- Debtors increase with R3 311 008 rand; this is about 46% of billed consumer income.
- Debtors take longer than 24 month to settle their debts.

The abovementioned can mainly be contributed to the high rate of unemployment which accounts for the low payment rate amongst certain members of the community.

The municipality relied heavily on grants from National Government to address the infrastructural needs of the communities. Despite the fact that the municipality has been able to record successes and surpassed expectations in delivery on its mandate, only 0.3% of total operating expenditure was utilized for operation and maintenance purposes. If the total value of assets is taken in consideration the picture even become bleaker, and can it be concluded that as a result of cash flow constraints maintenance are limited to actual repairs and no maintenance plans are in place.

Current changes within management are beginning to show positive results regarding the finance and can be summarized as follows:

Description	2009/2010	2008/2009	Rand value	% Improvement
Bank overdraft	550 842	1 457 248	906 406	62%
Cash & Cash equivalents	1 085 632	13 192	1 072 440	>100%
Creditors	4 087 075	4 766 950	679 875	14%

This positive results were achieved notwithstanding the fact that the municipality faces serious challenges like: the implementation of new financial practices from old IMFO to GRAP Standards. It can therefore be concluded that this positive trend will gather momentum during the 2010/2011 financial year.

